

# FDIC State Profile

Spring 2006

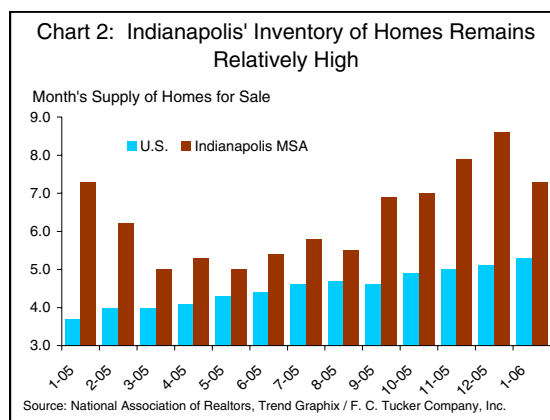
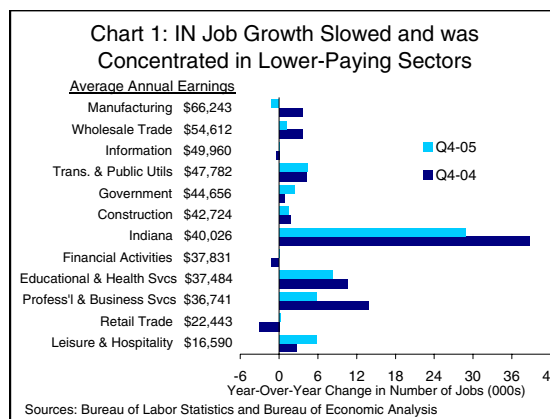
## Indiana

Indiana job growth slowed somewhat during 2005.

- State payroll employment growth (year-over-year) declined to 1.0 percent in the fourth quarter of 2005, down from 1.3 percent a year ago, and below the national level of 1.6 percent. Slowing job growth reflected a decline in the rate of jobs added in the state's professional and business services sector and manufacturing job losses (see Chart 1). The greatest number of new jobs (representing 70 percent of job growth across the state) occurred in the employment sectors with salaries below the state average.
- The **Indianapolis** and **Elkhart** metropolitan statistical areas experienced the largest declines in job growth compared to a year ago. Corporate mergers and bankruptcies contributed to slower growth in the professional and business services sectors in Indianapolis. A downturn in Elkhart's key recreational vehicle and manufactured housing industries, previously buoyed by hurricane reconstruction efforts along the Gulf Coast, resulted in a substantial slowdown in manufacturing hiring.
- Jobs in the motor vehicle production sector continued to represent a relatively large share (22 percent) of employment in the state's manufacturing sector. The majority of the motor vehicle jobs (59 percent) were in motor vehicle parts production, an industry that may be vulnerable to auto manufacturer restructurings and cutbacks. Visteon Corp., the nation's second-largest auto parts supplier, recently announced a second round of restructurings that may further hamper the state's job growth. As of January 2006, Visteon employed 2,200 people in Indianapolis and has plants in **Connersville** and **Bedford**.

Indiana households continued to show signs of strain.

- Per capita personal income growth of 4.0 percent at third quarter 2005 remained below the national level of 4.5 percent and down from 4.2 percent a year ago.
- A relatively slow rate of home price appreciation across the state has constrained the ability of homeowners to use equity as a source of funds. Home prices increased 4.7



**Table 1: Higher Margins and Fee Income Improved Aggregate Profitability**

Income statement contribution (percent of average assets)	Calendar year		Percentage Point Change
	2004	2005	
Net Interest Income	3.22	3.32	0.10
Noninterest Income	0.70	0.75	0.05
Noninterest Expense	-2.61	-2.71	-0.10
Provision Expense	-0.19	-0.19	0.00
Security Gains & Losses	0.03	0.05	0.02
Pretax Net Income	1.15	1.22	0.07
Income Taxes	-0.34	-0.37	-0.03
Net Income (ROA)	0.81	0.85	0.04

Source: FDIC

Note: Merger-adjusted data for Indiana's Community Institutions

percent in the state during fourth quarter 2005 from a year ago compared with a 13.0 percent appreciation rate for the nation.<sup>1</sup> Home values in the state's most populous metro, Indianapolis, grew at a rate of 4.9 percent, ranking it in the bottom 25<sup>th</sup> percentile for all metro areas in the nation. The large inventory of homes for sale in this urban area suggests housing prices in this area may continue to appreciate slowly (see Chart 2).

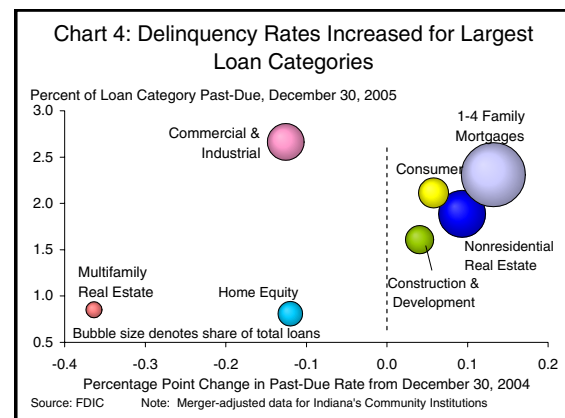
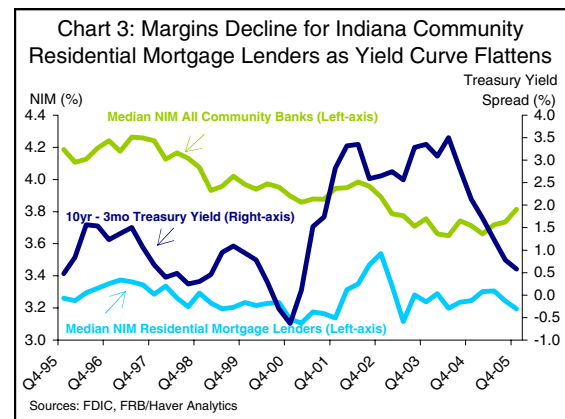
- Personal bankruptcy filings and mortgage foreclosure rates in Indiana continued to increase and remained significantly higher than the national average. The state's annualized rate of per capita personal bankruptcy filings ranked the highest in the country during the fourth quarter 2005 and was double the national average. The state's mortgage foreclosure rate of 3.7 percent during 2005 was also higher than the 1.6 percent national average.

### Indiana community institutions maintained earnings, despite a flattening yield curve.<sup>2</sup>

- During 2005, Indiana community institutions earned a near record \$296 million, a \$26 million (9.6 percent) improvement over 2004. Return on assets (ROA) improved slightly as increases in net interest income and noninterest income outpaced an increase in overhead expense (see Table 1).
- Community institution net interest margins (NIMs) improved, despite further flattening of the yield curve in 2005. Higher yields on earning assets, due in part to growth in typically higher yielding commercial real estate loans, offset increased funding costs.
- NIMs widened during 2005 for all banks across the state, except for the state's mortgage lenders. NIMs for this subset of banks narrowed and tracked changes in the yield curve spread as the increase in cost of funds outpaced the increase in the yield on earning assets (see Chart 3).<sup>3</sup> The aggregate ROA for mortgage lenders declined by two basis points as higher levels of noninterest income and securities gains helped offset the margin decline. Margins may be pressured further should a relatively flat yield curve continue, particularly for mortgage lenders who typically hold a higher percentage of longer-term assets.

### Asset quality indicators deteriorated slightly and were less favorable than other parts of the nation.

- Loan delinquency rates reported by the state's community institutions increased to 2.0 percent at year-end 2005, up six basis points from a year ago. Although delinquency rates increased across a number of major loan categories, the largest increases were reported in the 1-4 family mortgage and non-residential real estate loan portfolios (see Chart 4). The increase in the state's delinquency rate on 1-4 family mortgages was in the serious past-due category, mortgage loans that are more than 90 days delinquent.
- Net charge off rates reported by the state's community institutions held steady at 0.2 percent for 2005, unchanged from a year ago. Loan loss reserve coverage of noncurrent loans declined somewhat to 113 percent.
- Compared to other states in the nation, Indiana's median fourth quarter delinquency and net charge-off rates ranked sixth and tenth highest in the nation, respectively. Additionally, the median loan loss reserve to noncurrent loan ratio ranked second lowest among all states.



<sup>1</sup>Office of Federal Housing Enterprise Oversight.

<sup>2</sup>Community institutions are insured banks and thrifts with less than \$1 billion in assets, excluding new (less than three years old) and specialty banks. Data adjusted for merger activity.

<sup>3</sup>"Mortgage lenders" are defined as insured institutions that hold at least 50 percent of assets in 1-4 family mortgage loans and mortgage-backed securities.

## Indiana at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.0%	0.7%	1.3%	1.2%	-0.2%
Manufacturing (19%)	-0.2%	-0.6%	0.6%	-0.2%	-2.7%
Other (non-manufacturing) Goods-Producing (5%)	1.0%	-0.5%	1.0%	2.1%	-0.9%
Private Service-Producing (61%)	1.4%	1.4%	1.8%	1.6%	0.3%
Government (14%)	0.5%	0.0%	0.2%	0.7%	1.3%
Unemployment Rate (% of labor force)	5.4	5.5	5.4	5.3	5.3
<b>Other Indicators</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	N/A	4.7%	5.1%	4.9%	3.7%
Single-Family Home Permits	-4.0%	0.7%	1.9%	-0.2%	2.4%
Multifamily Building Permits	-8.5%	11.5%	8.6%	-11.9%	-8.3%
Existing Home Sales	-0.7%	12.3%	5.2%	8.4%	-3.8%
Home Price Index	4.7%	5.3%	3.8%	3.2%	2.9%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	17.64	13.52	7.72	8.65	8.90

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	186	191	197	197	206
Total Assets (in millions)	101,737	103,410	102,739	102,739	117,429
New Institutions (# < 3 years)	3	3	2	2	4
Subchapter S Institutions	16	16	15	15	16
<b>Asset Quality</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.98	1.81	2.23	2.23	2.13
ALLL/Total Loans (median %)	1.07	1.08	1.11	1.11	1.17
ALLL/Noncurrent Loans (median multiple)	1.36	1.21	1.40	1.40	1.68
Net Loan Losses / Total Loans (median %)	0.12	0.08	0.12	0.14	0.16
<b>Capital / Earnings</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	9.74	9.64	9.51	9.51	9.59
Return on Assets (median %)	0.84	0.84	0.80	0.79	0.90
Pretax Return on Assets (median %)	1.17	1.21	1.05	1.11	1.26
Net Interest Margin (median %)	3.79	3.73	3.71	3.66	3.73
Yield on Earning Assets (median %)	6.18	5.97	5.64	5.57	5.86
Cost of Funding Earning Assets (median %)	2.48	2.28	1.84	1.79	2.09
Provisions to Avg. Assets (median %)	0.11	0.11	0.11	0.13	0.16
Noninterest Income to Avg. Assets (median %)	0.69	0.72	0.66	0.68	0.72
Overhead to Avg. Assets (median %)	2.83	2.79	2.84	2.78	2.76
<b>Liquidity / Sensitivity</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	70.7	71.1	69.8	69.8	68.2
Noncore Funding to Assets (median %)	24.0	24.1	22.4	22.4	21.9
Long-term Assets to Assets (median %, call filers)	21.6	21.7	22.9	22.9	23.1
Brokered Deposits (number of institutions)	70	68	64	64	52
Brokered Deposits to Assets (median % for those above)	4.6	4.3	4.5	4.5	3.9
<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	64.3	62.4	63.9	63.9	63.0
Commercial Real Estate	172.3	168.3	161.8	161.8	147.8
Construction & Development	32.5	30.5	26.4	26.4	21.6
Multifamily Residential Real Estate	7.0	6.6	5.3	5.3	4.7
Nonresidential Real Estate	115.5	116.7	121.0	121.0	113.6
Residential Real Estate	296.2	290.6	300.9	300.9	308.2
Consumer	37.4	38.3	41.2	41.2	47.6
Agriculture	33.9	34.9	27.8	27.8	30.6

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Indianapolis, IN	56	24,898	< \$250 million	123 (66.1%)
Evansville, IN-KY	22	5,256	\$250 million to \$1 billion	47 (25.3%)
Fort Wayne, IN	23	4,535	\$1 billion to \$10 billion	15 (8.1%)
South Bend-Mishawaka, IN-MI	15	3,673	> \$10 billion	1 (0.5%)
Columbus, IN	8	2,432		